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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Shashi: Botswana's Hope For Economic Independence

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March 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

Shashi:
Botswana's Hope For Economic Independence

Introduction

At independence four years ago, the economic outlook for Botswana was dim. It was and still is one of the world's least developed countries. Its economy is almost completely agricultural in a region where farming is precarious at best. Development of the recently discovered rich Shashi copper-nickel deposits, which is to begin in 1970, holds promise to change this gloomy prospect. This memorandum describes the impact that developing the mining project and the necessary infrastructure will have on Botswana's economy and on the country's economic independence.

Background

1. Prior to discovery of rich copper-nickel deposits, Botswana had little hope of development and, to survive, faced the prospect of dependence on foreign aid for the indefinite future. Because the Kalahari Desert covers most of the country, economic activity is largely confined to the semi-arid eastern border region. Subsistence farming and cattle-raising are the main sources of income and employment. Agricultural resources are so marginal, however, that food imports are necessary, and in recent years a significant part of the population has depended repeatedly on additional emergency food supplies, principally from South Africa.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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Lack of water and the necessary facilities to use it, skilled manpower, capital, and a domestic market have virtually precluded developing manufacturing. Gross domestic product (GDP) in 1966 was approximately \$54 million, and per capita income for the population of about 600,000 was below \$100.

2. Mining -- gold, silver, asbestos, kyanite, copper, and manganese -- has been carried on intermittently from small workings for about 50 years. Production reached a peak of \$840,000 in 1961, but then declined rapidly until 1966 when it almost ceased. Since then, however, new discoveries of diamonds, coal, and copper-nickel ore have opened the way for mining on a large scale in the early 1970s. In particular, the mining of copper-nickel ore is scheduled to begin in 1973 and to reach full production three years later.

External Dependence

3. Botswana now relies heavily on external assistance, primarily from the United Kingdom, for both budgetary and development financing. Its power to raise revenue on its own is limited by a customs arrangement with South Africa dating back to 1910 (and renegotiated in December 1969), which provides for tariff-free trade between the two countries except for Botswana's imports of a few consumer goods. Botswana receives a fixed percentage (presently 0.3%) of the duties on imports into the customs union and on excise duties collected on certain South African manufactures. Since 1960, about 55% of current expenditures -- in fiscal year 1970,* roughly \$20 million -- have been financed domestically; the remainder came from the United Kingdom. In addition to budgetary support, the United Kingdom committed about \$36 million to development assistance for fiscal years 1968 through 1970.

4. In monetary matters, Botswana is, in effect, an extension of South Africa, and money and credit conditions are determined by Pretoria. While no formal monetary agreement exists, the South African

* *The fiscal year of Botswana is 1 April - 31 March; therefore, fiscal year 1970 began on 1 April 1969.*

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rand is legal tender in Botswana. Botswana has no central bank, its commercial banks are administered from South Africa, and it has no separately identifiable gold or foreign exchange reserves. Moreover, capital movements are free and cannot be controlled by the Botswana government.

5. Many Botswana work in South African mines and, to a lesser extent, on farms there. The wages they bring back are an important part of Botswana's money supply. On the other hand, most technical and administrative positions in Botswana are held by South Africans, who make up 10% of the total wage earning labor force and account for a much larger percentage of the total wage bill.

Shashi

6. Shashi copper-nickel deposits, estimated at some 36 million tons* of proved and probable copper-nickel ores, are enough to assure mining for 30 years. The deposits were discovered in 1959 at Selibe-Pikwe in the northeastern corner of the country near Francistown and the Shashi River. Exploration has been carried out by Bamangwato Concessions Ltd. (BCL)** whose studies show that more than 30,000 tons of copper-nickel matte and about 110,000 tons of sulfur could be produced annually. The matte will be exported for treatment to yield the equivalent of about 14,200 tons of nickel and 16,300 tons of copper. The value of full-scale output is conservatively expected to be at least \$50 million annually (at current prices), with an additional several million dollars expected from sulfur production, and it could be much more.

7. The Shashi Development Project will cost about \$160 million, including \$100 million for mine construction at Selibe and Pikwe and the remainder for power, water, and transport facilities. BCL will reorganize to direct the project, with the government of Botswana receiving 15% participation. The International Development Association (IDA), an

* All tonnages are in metric tons.

** A company whose main shareholders are Mineral Separation Ltd. and Botswana Roan Selection Trust Ltd., a subsidiary of Roan Selection Trust and American Metal Climax.

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affiliate of the International Bank for Reconstruction and Development, has approved a \$2.5 million credit to the government of Botswana to finance engineering design and preliminary works for the infrastructure. Work began in February 1970. To provide the necessary power, water, and transport facilities, and to bring the mine into operation by the 1973 target date, BCL must meet a tight schedule. The most critical item will be the Shashi Dam, which must be far enough along by October 1971 to conserve the 1971-72 wet season runoff. A description and location of the principal facilities of the complex are shown below and on Figure 1.

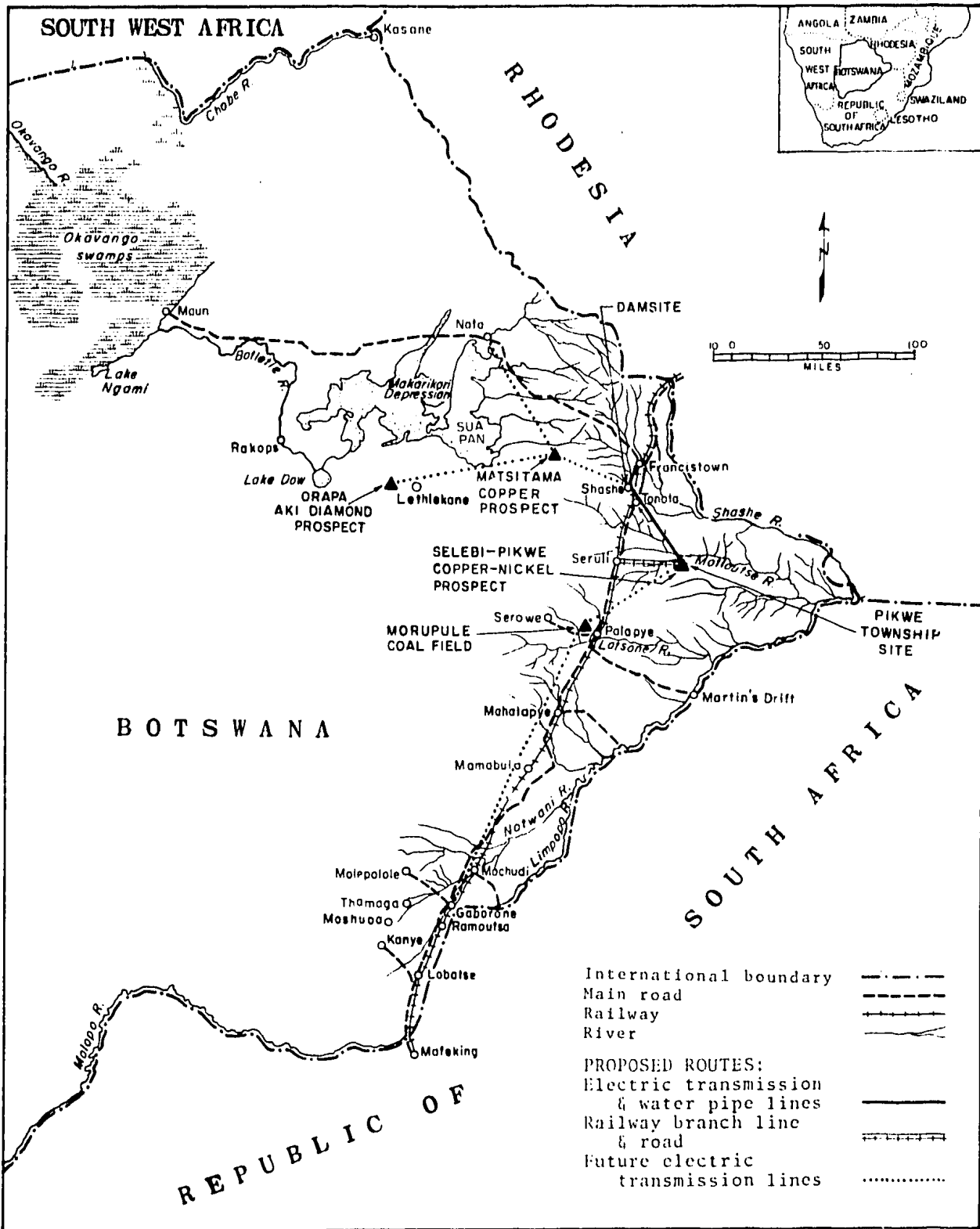
Facility	Location	Comment
Water supply	Shashi River	Consists of a dam and a distribution system to serve the mining complex, power station, Pikwe Township, and Francistown.
Power	Pikwe	Consists of a 60-megawatt conventional thermal generating station using locally mined coal and a transmission system connecting Pikwe, Shashi, and Francistown. Capacity is sufficient to meet requirements for mining and the township well into the 1980's.
Transportation	Seruli-Pikwe; Seruli-Francistown	Consists of an access road from Seruli to Pikwe; upgrading Seruli-Francistown section of the north-south road; and a branch railway from Seruli to Pikwe.
Housing	Pikwe	Consists of a complete township, including buildings for local services and industries, housing for Shashi Project employees, and a hospital and associated medical facilities.

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BOTSWANA
PROPOSED INFRASTRUCTURE FACILITIES

Figure 1



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Impact of Shashi on Botswana

8. Botswana's economy will be changed radically by Shashi from an agriculture-based subsistence economy to one with a dynamic modern sector. Moreover, Shashi will provide the impetus for extensive mineral development at other sites, including mining of copper, diamonds, and coal, the commercial exploitation of brine, and the production of salt, soda ash, and potash. Potash deposits could yield an output of 80,000 tons annually for 25 years. South Africa constitutes a large potential market for Botswana's salt minerals and products.

9. The Shashi infrastructure and the associated mining industry will encourage further development in the industry and services sectors. Marakikari Soda Ltd. (MSL), a subsidiary of Botswana Roan Selection Trust, plans to pump concentrated brine 110 miles from Sua Pan in the Makarikari Depression to a potash plant on the rail line (see Figure 1). It is hoped that this project will lead to an export-oriented chemical industry using locally produced coal, sulfur, salt, soda ash, and potash.

10. Shashi also will markedly alter Botswana's foreign trade (see Figure 2). Once underway, copper-nickel production is expected to increase the \$10 million export total in 1968 fivefold to a level of more than \$60 million and turn the present trade deficit into a surplus. Agricultural exports are almost certain to continue to stagnate; food and consumer goods imports are expected to increase moderately and capital equipment substantially. The use of domestic coal to generate electricity locally will eliminate imports of Rhodesian coal and South African electricity.

11. Although mining will drastically restructure the economy, the effect on domestic incomes and expenditures will be relatively low. A large part of the export receipts will accrue to the companies and will be repatriated to South Africa and elsewhere. GDP, which includes such repatriated payments, is likely to increase by 50% by 1973 and by an additional 30% by 1976. The GDP, however, overstates the resources available within Botswana, and in such cases the gross national product (GNP) is a more useful yardstick by which to measure national

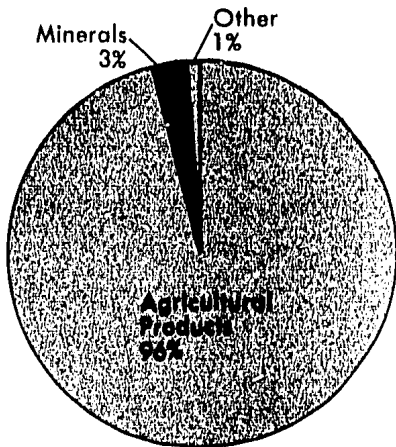
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Impact of Shashi on Botswana

Figure 2

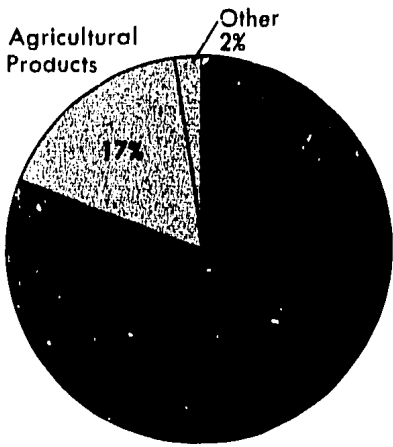
Composition of Exports (by value)

1968



Total: US \$10.5 million

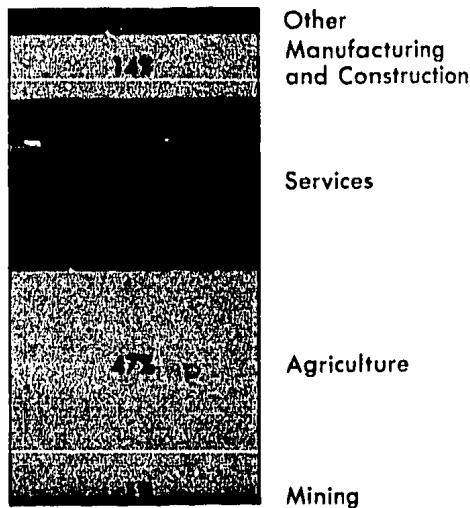
1973 (est.)



Total: US \$62.0 million

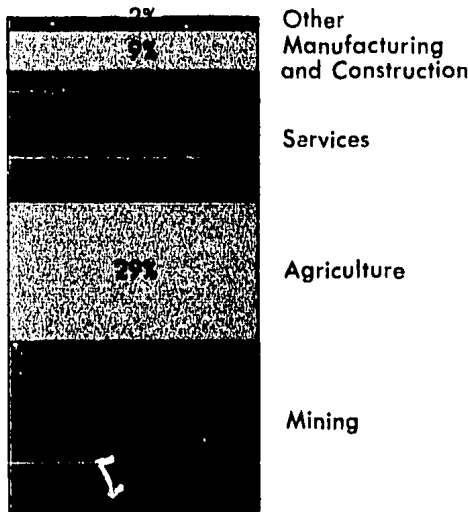
Composition of GDP

1968



Total: US \$55 million

1973 (est.)



Total: US \$85 million

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welfare. GNP, which excludes the repatriated earnings of foreigners, is expected to increase about 25% by 1973 and an additional 10% by 1976, well below half the increase in GDP.

12. Few Botswana will receive additional income directly from the mining venture. The copper-nickel project (including the coal mines) is highly capital intensive and will directly and indirectly employ only some 2,500 people, and not all of these will be Botswana. This total, however, represents an increase of about 8% of the total wage labor force presently employed in the private sector outside agriculture. The new employment is expected to generate additional wages of about \$1.4 million annually, which in turn should stimulate additional earnings in the services sector of perhaps half again as much.

13. Government domestic revenues will rise greatly. Estimated net revenues* from the project will be about \$6 million in fiscal year 1974, \$12 million annually in fiscal years 1976-78, and about \$17 million in fiscal years 1979 and 1980. This revenue, however, probably will not be an additive to present government revenue. The increase in the next few years probably will be largely offset by a decline in UK budget subsidies so that the funds available to the government may not increase greatly. Thus the new mining area for some time will be a modern enclave, having little direct impact on most of the country's otherwise primitive economy. In the long run -- probably late in the 1970s -- the effects will spread, however, and incomes of many Botswana will rise greatly.

Conclusions

14. The economic outlook for Botswana, which at independence four years ago looked as though the country would be on a foreign aid dole for the foreseeable future, has been markedly altered. The Shashi Development Project will change Botswana's

* *Taxes, royalties, and dividends accruing to government less recurrent expenditures by government related to the projects.*

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economic structure and eventually the way of life of its people. For the next few years, however, the project will remain a modern economic enclave, and its effect on the rest of the economy will be small. It will employ relatively few Botswana and the boost to government revenues, while substantial, may initially be offset by a decline in UK budget subsidies. Such a shift in sources of financing may enhance somewhat Botswana's economic and hence political independence from its white-ruled neighbors. The country's modern sector, however, will remain dependent on foreign skills and its transport on South African railroads for many years to come.

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